

MISCELLANEOUS REGULATIONS

STATE OF NEVADA
GAMING CONTROL BOARD
GAMING AUDIT PROCEDURES MANUAL

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General

One of the main goals of the Nevada Gaming Commission and the Gaming Control Board is to ensure that gaming properties are operated in an honest and reputable manner. Throughout the state's history there have been those unfortunate occasions when individuals or groups of individuals have tainted the state's image by unduly influencing the operation of one of its gaming licensees.

Allegations of mob control, many of which were supported by federal indictments and criminal convictions, over casinos in the 1970s and 80s spurred the reality that the gaming industry in Nevada is not impregnable to the influence of unsavory individuals. Events such as these show why it is important for the Commission and Board to monitor the individuals and companies who operate and/or influence Nevada gaming operations.

Various compliance auditing procedures are performed that are meant to discover activity (e.g., loans, changes in ownership, etc.) that may have not been properly reported to or approved by the Board or Commission as governed by specific regulations.

The following regulations/statutes pertain to ownership and monitoring activities:

<u>Regulation/ Statute</u>	<u>Activity</u>
3.020	Ownership of premises where gaming conducted.
3.100	Employee report.
5.050	Information to be furnished by licensee's (participation in profits).
5.120	Finders' fees.
6.040	Accounting records.
6.050	Records of ownership.
8.020	Transfer of interest among licensees (change in ownership).
8.030	Transfer of interest to stranger to license (change in ownership, transfer to a stranger).
8.050	Escrow required (pertains to acquisition of interest in gaming operation).
8.130	Transaction reports (loans/leases).

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<u>Regulation/ Statute</u>	<u>Activity</u>
14.190	Approval to sell or dispose of gaming devices.
15.510.4-1	Statement required by NRS 463.510.4 (stock certificates).
15A.110	Required provisions in certificate of limited partnership
15B.110	Required provisions in articles of organization
NRS 463.160(1)(c)	Licenses required; unlawful to permit certain gaming activities to be conducted without license; exceptions.
NRS 463.162	State gaming license required where equipment, service or property delivered or furnished for gaming interest or revenue; exemptions.
NRS 463.169	Registration or licensing of persons conducting certain tournaments or contests in association with gaming licensee; termination of association.
NRS 463.530	Individual licensing of officers and directors of corporations other than publicly traded corporation; other persons required to be licensed individually.
NRS 463.540	Limitation on certain powers of corporations other than publicly traded corporations after licensing; approval of commission.
NRS 463.567	Prior approval by commission required for disposition of interest; restrictions on unsuitable persons; statement of restrictions required on certificate. (Limited Partnerships)
NRS 463.569	Individual licensing of partners and other persons. (Limited Partnerships)
NRS 463.5733	Prior approval by commission required for disposition of interest; restrictions on unsuitable persons; statement of restrictions required on certificate. (Limited Liability Companies)
NRS 463.5735	Individual licensing of members, managers and other persons. (Limited Liability Companies)
NRS 463.5736	Required reports and statements; income tax returns. (Limited Liability Companies)

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**Regulation/
Statute**

Activity

NRS 463.650

License required (pertains to the licensing and regulation of manufacturers, sellers and distributors of gaming devices or cashless wagering systems).

Regulation 3.100 Employee Report

The search for reportable employees is designed to determine those individuals who are reportable under **Regulation 3.100**. The auditor should be aware of all the criteria for someone to be considered a reportable employee while performing other relevant audit procedures. Additionally, **Regulation 3.110** defines those employees who are listed or should be listed on the employee report as key employees. Note that pursuant to **Regulation 5.013** officers, directors, owners or key employees are not allowed to gamble at "their" licensed location, although it is permissible for them to play or wager on poker, panguingui or off-track pari-mutuel wagering.

Regulation 8.130 Transactions

One of the objectives is to determine whether the licensee has reported transactions as required by **Regulation 8.130**. The regulation specifically states the types of transactions that are reportable as well as listing several types of transactions that are not reportable. It also establishes specific dollar thresholds over which a transaction is reportable. Leases or financing agreements involving licensed manufacturers or distributors are not reportable. However, if the arrangements are "bucket buys" or participation agreements, the transaction is reportable pursuant to **Regulation 5.050**.

A compliance review in most cases is limited to the reporting entity, that is the company or business that is the licensed operator. However, publicly traded corporations holding an interest in a gaming licensee are required to comply with **Regulation 16** which requires certain information regarding stock ownership to be filed with the Board.

Although there may not be specific procedures regarding the compliance with a particular regulation, you should be alert to any noncompliance by the licensee. An example of this is **Regulation 14**, regarding the Board's approval of associated equipment. If it is noted that the property purchased, for example, a new computer system for the cage during the last year, compliance with **Regulation 14** should be verified.

OTHER REGULATIONS

Regulation 5.170 Problem Gambling

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This regulation requires each licensee to post or provide written materials concerning the nature and symptoms of problem gambling, and to implement procedures and training for all employees who directly interact with gaming patrons in gaming areas. The regulation also requires that a program be implemented for those patrons who chose to self-limit their access to the issuance of credit, check cashing or direct mail marketing by that licensee.

Regulation 6.110(2) Hopper Load Adjustments

Regulation 6.110(2) states in part, that slot machine revenue is computed as drop less fills to the machine and jackpot payouts. The initial hopper load is not a fill and does not affect gross revenue. The difference between the initial hopper load and the total amount that is in the hopper at the end of a licensee's fiscal year end must be adjusted accordingly as an addition to or subtraction from the drop for that year. If the amount in the hoppers is less than the initial fills, the appropriate adjustment would be to decrease the asset account (hopper loads) with a credit entry and also decrease slot revenue with a debit entry. If the amount in the hoppers is greater than the initial fills, the opposite entry would be made.

Regulation 6.130(1)(b) Count Personnel List

Following the end of each calendar quarter, licensees must submit a list to the Board of all employees authorized to participate in the soft and/or hard counts and those employees authorized to be in the count room during the count. This list should include all employees who were in the count as of the end of the quarter and also all those who were in the count at any time during the quarter.

Regulation 6.150 Minimum Bankroll

At the end of this chapter you will find the bankroll verification worksheet used when evaluating compliance with **Regulation 6.150**. The "immediate exposure" column is intended to function as an analysis of current cash availability, reflecting total cash on hand, less the games and slot machine cash requirement, as of the date the review is performed.

Cash available for the "cash on premises" figure is restricted to cash and cash equivalents which are readily available for customer payouts. Coin in slot hoppers cannot be used in this calculation. The "cash in banks" figure should reflect book balance, as opposed to the bank's balance, to recognize any outstanding checks. Consideration will be given to restrictions on cash in banks, other than cash held for the restricted race/sports book reserve requirement and the progressive keno game bank deposit. Amounts in trust funds or other bank accounts which do not allow unrestricted access should not be included in "cash available".

The "thirty-day exposure" column functions as a cash flow statement, in that cash flow for one month is added to total cash on hand at the time of the bankroll verification, to project a cash position at the end of thirty days. Cash flow, as used here, includes revenues and expenses of all departments, not just those which are gaming-related. Gross revenues should exclude

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complimentaries. As appropriate, delinquent payables or other delinquent debt payments may be another consideration in determining cash requirement if payments on these payables is required.

The computations used to determine the cash requirement for licensed gaming activity are as follows:

1. The average daily fill for each type of table game is determined by dividing total fills, as reflected in the accounting records, by the number of days in that month. This is multiplied by 2 days to approximate the cash needed to operate table games.
2. The slot machine reserve amount, other than those involving periodic payments as described in item 5 below, is determined by totaling items (a) and (b), as applicable:
 - a. The average daily fill/jackpot amount (which may be determined from the most recent NGC-31 by subtracting “gross revenue” from “drop” and then dividing the result by the number of days in the month), times the greater of:
 - (1) The number of days until the next slot drop; or
 - (2) Two days.
 - b. The greater of:
 - (1) 20% of the total current progressive slot liability; or
 - (2) The single highest available progressive or nonprogressive jackpot.
3. The keno game reserve is the standard keno game limit plus the current progressive keno liability.
4. The race and sports book reserve is computed as required by **Regulation 22.040**, unless otherwise waived or a lesser/greater amount is required by the Chairman.
5. The present value of the total sums owed to patrons for annuities or periodic payments as permitted under **Regulation 5.115** must be included as a cash requirement until those sums are fully funded.
6. Other progressive payouts include 100% of the progressive payout liability from licensed games other than slots and keno.

Regulation 12.070 Redemption and Disposal of Discontinued Chips and Tokens

A licensee that is permanently removing chips or tokens from circulation, including a licensee that ceases operations, must prepare a plan for redeeming and destroying the chips or tokens.

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The plan must be approved by the Chairman of the Gaming Control Board prior to the plan's implementation.

NRS 463.165 Denied Gaming Applicants

Gaming licensees may not employ or enter into any agreement or contract with a person who has been found unsuitable, denied a license or whose license was revoked by the Commission. In order for licensee personnel to know who these denied applicants are, the Board issues a "Listing of Individuals who have been Denied a Gaming License, been Found Unsuitable for Licensure or had a Gaming License or Finding of Suitability Revoked by the Nevada Gaming Commission". This list will also contain the names of any business organization under the control of any such persons known to the Board.

Internet Gambling

Interstate gambling is prohibited under federal law. Further, NRS 465.091 through 465.094 allows only race books or sports pools (both pari-mutuel and nonpari-mutuel) to accept or receive wagers placed through a "medium of communication". A medium of communication includes, but is not limited to, mail, telephone, television, telegraph, facsimile, cable, wire, the Internet or any other similar medium. Because there is no sure way to tell if a person wagering via the Internet is physically in Nevada, Internet race book and sports pool gambling is prohibited by Regulation 22. A gaming licensee's website should be reviewed annually for statutory and regulatory compliance.

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Regulation 6.150 Minimum Bankroll Computation

	<u>Immediate Exposure</u>	<u>Thirty Day Exposure</u>
<u>Cash available:</u>		
Cash on Premises	\$	
Less: Safekeeping and Front Money	\$ ()	
Cash in Banks	\$	
Progressive Keno Game Bank Deposit	\$	
Restricted Race/Sports Book Reserve	\$	
Cash - Other	\$ _____	
Total Cash on Hand	\$	\$
Gross Revenues (1 month)		\$ _____
Total Cash Available		\$
<u>Cash Requirement:</u>		
Operating Expenses (1 month)		\$
Payroll (1 month)		\$
Debt Service (1 month)		\$ _____
Licensed Gaming Activity Cash Requirement (1)	\$ ()	
Other	\$ (_____)	
Total Cash Requirement	\$ _____	\$ _____
Cash Excess/(Deficiency)	\$ _____	\$ _____

(1) See Licensed Gaming Activity Cash Requirement calculation on next page.

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<u>Note:</u>				
(1) Licensed Gaming Activity Cash Requirement				
<u>Games</u>	<u>Average Daily Fill</u>	<u>X</u>	<u>2</u> <u>Days</u>	
Craps	\$	X	2	\$ ()
“21”	\$	X	2	\$ ()
Roulette	\$	X	2	\$ ()
Baccarat	\$	X	2	\$ ()
Big 6	\$	X	2	\$ ()
Other	\$	X	2	\$ ()
Total Games Exposure				\$ ()
Slot Machine Reserve				\$ ()
Keno Game Reserve				\$ ()
Race/Sports Book Reserve				\$ ()
Periodic Payments Owed				\$ ()
Other Progressive Payouts				\$ ()
Total				\$ ()